



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Santa Cruz County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Santa Cruz County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2004

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 19, 2004. Our report was modified as to consistency because of a change in reporting entity. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving internal control over financial reporting that we will report to the County's management in a separate letter at a future date.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we will report to the County's management in a separate letter at a future date.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

November 19, 2004



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of
Santa Cruz County, Arizona

Compliance

We have audited the compliance of Santa Cruz County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Santa Cruz County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 04-101.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Santa Cruz County as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. Our report was modified as to consistency because of a change in reporting entity. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Dennis L. Mattheisen, CPA
Financial Audit Director

March 9, 2005, except for the
Schedule of Expenditures of Federal
Awards, for which the date is November 19, 2004

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Office of National Drug Control Policy			
High Intensity Drug Trafficking Area, passed through Pima County	07.I3PSAP549	01-11-S-132401-1002 01-11-S-132493-1002	\$ 482,988
High Intensity Drug Trafficking Area, passed through Pima County	07.I4PSAP549	01-11-S-134176-1003 01-11-S-134372-1003	<u>182,822</u>
Total U.S. Office of National Drug Control Policy			<u>665,810</u>
U.S. Department of Agriculture			
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	75,022
Forest Service Grant	10.unknown		<u>6,819</u>
Total U.S. Department of Agriculture			<u>81,841</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program, passed through the Arizona Department of Housing	14.228	148-03	<u>479,767</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>597,577</u>
U.S. Department of Justice			
Juvenile Accountability Incentive Block Grants, passed through the Governor's Office for Children, Youth, and Families	16.523	O1JAIBG-12 JB-GRA-02-4182-12 JB-GRA-03-5273-11	25,089
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-04-061	10,555
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	PC-150-04, AC-200-04	206,853
Rural Domestic Violence and Child Victimization Enforcement Grant Program, passed through the Governor's Office for Domestic Violence Prevention	16.589	RD-GRA-03-4091-03	59,244
Local Law Enforcement Block Grants Program	16.592		455
Bulletproof Vest Partnership Program	16.607		4,448

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
Enforcing Underage Drinking Laws Program, passed through the Governor's Office of Highway Safety	16.727	2002-OJJDP-008	\$ 13,560
Southwest Border Prosecution Initiative	16.unknown		70,000
Federal Equitable Sharing Program	16.unknown		28,884
DEA-Domestic Cannabis Eradication and Suppression Program, passed through Pinal County	16.unknown	None	<u>5,251</u>
Total U.S. Department of Justice			<u>424,339</u>
 U.S. Department of Labor			
Welfare-to-Work Grants to States and Localities	17.253		296,347
Welfare-to-Work Grants to States and Localities, passed through the Arizona Department of Economic Security	17.253	E5709066	<u>8,473</u>
Total Welfare-to-Work Grants to States and Localities			<u>304,820</u>
 WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5703012, E5704012	472,336
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5703012, E5704012	436,400
WIA Dislocated Workers, passed through Pima County	17.260	E5703012, E5704012	<u>155,238</u>
Total WIA Cluster			<u>1,063,974</u>
 Employment and Training Administration Pilots, Demonstrations, and Research Projects, passed through the Arizona Department of Economic Security			
	17.261	E5204014	185,000
Work Incentives Grant, passed through the Arizona Department of Economic Security	17.266	WI-13244-03-60	<u>124,889</u>
Total U.S. Department of Labor			<u>1,678,683</u>
 U.S. Department of Transportation			
Airport Improvement Program	20.106		1,786,805
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	SL435 01D/01C	4,079
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants, passed through the Governor's Office of Highway Safety	20.601	2004-410-005	<u>9,079</u>
Total U.S. Department of Transportation			<u>1,799,963</u>

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
General Services Administration			
Election Reform Payments, passed through the Arizona Secretary of State	39.011	None	\$ <u>245,596</u>
U.S. Department of Education			
Adult Education—State Grant Program, passed through the Arizona Department of Education	84.002	V002A030003	140,418
Title I Program for Neglected and Delinquent Children, passed through the Arizona Administrative Office of the Courts	84.013	25134	20,640
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	H027A20007	10,278
Projects with Industry	84.234		231,356
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		271,759
Community Technology Centers	84.341		250,649
Arts in Education	84.351		<u>274,836</u>
Total U.S. Department of Education			<u>1,199,936</u>
U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252043	164,992
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	E7204023	27,837
Early Learning Fund	93.577		144,082
Social Services Block Grant, passed through the Southeastern Arizona Governments Organization	93.667	04-07	65,255
HIV Prevention Activities—Health-Department Based, passed through the Arizona Department of Health Services	93.940	HG352261	36,496
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG354251	4,520
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG461035	<u>59,638</u>
Total U.S. Department of Health and Human Services			<u>502,820</u>

(Continued)

See accompanying notes to schedule.

Santa Cruz County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number (Note 2)	Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Department of Emergency and Military Affairs	97.004	None	\$ 366,005
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	58-0103-0-1-999	51,593
State and Local All Hazards Emergency Operations Planning, passed through the Arizona Department of Emergency and Military Affairs	97.051	None	32,071
Citizen Corps, passed through the Arizona Department of Emergency and Military Affairs	97.053	None	1,896
Community Emergency Response Teams, passed through the Arizona Department of Emergency and Military Affairs	97.054	None	<u>7,219</u>
Total U.S. Department of Homeland Security			<u>458,784</u>
Total Expenditures of Federal Awards			<u><u>\$8,135,116</u></u>

See accompanying notes to schedule.

Santa Cruz County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Santa Cruz County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the *2004 Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2004.

Santa Cruz County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified
	Yes	No
Material weakness identified in internal control over financial reporting?	___	<u>X</u>
Reportable condition identified not considered to be a material weakness?	<u>X</u>	___
Noncompliance material to the financial statements noted?	___	<u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	___	<u>X</u> (None reported)
Reportable condition identified not considered to be a material weakness?	___	<u>X</u>
Type of auditors' report issued on compliance for major programs:		Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program
17.253	Welfare-to-Work Grants to States and Localities
	Workforce Investment Act Cluster of Programs:
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
20.106	Airport Improvement Program
39.011	Election Reform Payments
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.341	Community Technology Centers
97.004	State Domestic Preparedness Equipment Support Program

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000
Auditee qualified as low-risk auditee?	___	<u>X</u>

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	___	<u>X</u>
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Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Financial Statement Finding

04-01

The Treasurer's Office needs to accurately account for its cash and investments

The Treasurer's primary responsibility is to manage public and trust monies of the County and other political subdivisions. At June 30, 2004, the Treasurer's Office had been entrusted with approximately \$24 million in public monies. To fulfill the responsibilities of managing these monies, the Treasurer's Office should ensure adequate internal controls are followed; maintain accurate accounting records of receipts, disbursements, and cash balances; reconcile cash and investment journals and reports; and safeguard assets from misappropriation. However, the Treasurer's Office has not established essential internal controls such as completely and accurately reconciling the Treasurer's cash journal to the Treasurer's Report, daily cash reconciliation, bank statement, or investment ledger. This lack of accurate reconciliations resulted in unexplained differences at June 30, 2004. For example, the unreconciled difference between the Treasurer's cash journal and the Treasurer's Report was over \$615,000. In addition, reconciling items that have been identified are often not investigated, or corrected as indicated by more than 100 uncorrected reconciling items dating back to 1993.

Also, all three authorized check signers could prepare, approve, and sign checks, and had access to the blank checks. Further, two of the authorized signers also prepared the checking account reconciliation, and no further review of the reconciliation was performed.

This finding is a reportable condition and an immaterial internal control weakness over financial reporting. This internal control weakness is similar to a prior year's finding.

County management should implement the recommendations below to help ensure that it fulfills its responsibility to establish and maintain adequate internal controls:

- Implement prior audit management letter recommendations.
- Reconcile the Treasurer's cash journal to the Treasurer's Report, daily cash reconciliation, bank statement, and the investment ledger at least monthly.
- Identify and promptly investigate all reconciling items and propose appropriate correcting adjustments to record the items or instruct the bank to correct its records.
- Establish the necessary guidelines to ensure that the Treasurer's Office effectively separates employee responsibilities.

Santa Cruz County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Federal Award Finding and Questioned Cost

04-101

CFDA No.: 14.228 **Community Development Block Grants/State's Program**

U.S. Department of Housing and Urban Development, passed through the Arizona Department of Housing
Award Year: May 5, 2003 through April 15, 2005

Award Number: 148-03

Questioned Cost: \$10,000

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that for a cost to be allowable, it must be necessary and reasonable for proper and efficient performance and administration of Federal awards. However, the Santa Cruz County Community Development Office received a federal reimbursement of \$10,000 in excess of allowable expenditures due to a miscalculation on Request for Payment report #10. This finding is an immaterial noncompliance with the program's allowable costs/cost principles and reporting requirements. To help ensure compliance with OMB Circular A-87, the County should follow established policies and procedures that ensure only proper and reasonable costs are charged to federal programs.

March 9, 2005

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U. S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Jennifer K. St. John, CPA
Director of Administrative Services

SANTA CRUZ COUNTY, ARIZONA
Corrective Action Plan
Year Ended June 30, 2004

Financial Statement Findings

04-01

The Treasurer's Office needs to accurately account for its cash and investments

Contact Person: Caesar Ramirez, Santa Cruz County Treasurer

Anticipated Completion Date: April 30, 2005

As of April 30, 2004, the County Treasurer and the Senior Accountant in the Finance Department investigated and reconciled all differences between the Treasurer's cash journal, Treasurer's Report, daily cash reconciliations, bank statements, and the investment journal for fiscal year 2002-2003. Currently, the County Treasurer is reconciling the Treasurer's cash journal with the various other reports for May 2004 through February 2005. All discrepancies are being investigated and journal entries to the County's accounting system will be made as necessary. We anticipate this process to be completed by April 2005. Our next and final step is to investigate and reconcile all outstanding items prior to July 1, 2003 and make any resulting corrections to the County's accounting system. We anticipate this process being completed by June 2005.

Finally, the Administrative Services Director will be reviewing the monthly bank reconciliations until the County can hire an additional accountant position for the Treasurer's Office. This will provide an independent review of the reconciliations.

Federal Award Findings

04-101

The Community Development Office received a federal reimbursement of \$ 10,000 in excess of allowable expenditures due to a miscalculation on a Request for Payment Report.

Contact Person: Mary Dahl, Community Development Director

Anticipated Completion Date: March 31, 2005

While the County is ultimately responsible, when we contract for professional grant administration services with the Southeastern Arizona Government Organization (SEAGO), it is reasonable to expect that they will provide those services in an accurate manner. To commit additional staff time checking SEAGO's work does not seem to be an efficient use of County resources. Further, the Arizona Department of Housing also verifies the request for payments and supporting documentation and they failed to correct the \$ 10,000 overpayment.

We have contacted the State Community Development Block Grant Program Manager and plan to resolve the situation by March 31, 2005.